INTERNAL AUDIT REPORT

2026-06

Expenditure Coding to General Ledger Accounts

Controller Division

September 3, 2026

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Mayor Suzanne LaFrance
Municipality of Anchorage
-Office of Internal Audit-

September 3, 2026

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2026-06, Expenditure Coding to General Ledger Accounts, Controller Division.** A summary of the report is presented below.

In accordance with the 2026 Audit Plan, we completed an audit of the Expenditure Coding to General Ledger Accounts, Controller Division. The objective of this Assembly requested audit was to determine whether expenditures coded to four general ledger accounts as Other Professional Services, Tuition/Registration Non-Local, Tuition/Registration Anchorage Area, and Miscellaneous Expenditures for the period between June 1, 2025, through August 31, 2025, were coded appropriately and the receipts/invoices match the accounts used to code the expenditures. Specifically, we selected a sample of expenditures coded to the four general ledger accounts in SAP and reviewed the descriptions and attached documentation to determine if they were coded correctly.

Our audit found that controls over coding of the specific expenditures to the general ledger accounts needs to be improved. Specifically, we found the Controller does not have specific account definitions for the general ledger chart of accounts to guide departments in determining which account to use when coding expenditures to them, and Municipal departments did not appear to code certain expenditures to the correct general ledger accounts in SAP.

There were two findings in connection with this audit. Management was responsive to the findings and recommendations.

Alden P. Thern
Director, Internal Audit

Mayor Suzanne LaFrance
Municipality of Anchorage
-Office of Internal Audit-

September 3, 2026

Internal Audit Report 2026-06
Expenditure Coding to General Ledger Accounts
Controller Division

Introduction. The Municipality of Anchorage's (Municipality) Controller Division is responsible for ensuring all Municipal department financial transactions are properly recorded, reviewed, corrected (if necessary), reconciled, and reported through the Municipality's enterprise resource planning (ERP) system, SAP. Municipal departments are responsible for recording revenues and expenditures in SAP to a general ledger (GL) account which is most appropriate to maintain an accurate record of their activities. Currently, when a new GL account needs to be created for an activity, Municipal departments request a new GL account through the Controller Division, and the request goes through various management approvals including the Office of Management and Budget (OMB). Once approved, the Controller Division creates the new GL account and maintains the master data in SAP for the GL chart of accounts. The Office of Management and Budget uses the GL account structure to develop, implement, and monitor the Municipality's annual general government and enterprise operating and capital budgets. Once the budget is developed by OMB, it is submitted to the Assembly for approval. Upon approval, the budgets are then loaded into SAP for Municipal agencies to utilize the funds and record their financial activity.

Objective and Scope. The objective of this Assembly requested audit was to determine whether expenditures coded to four GL accounts as Other Professional Services, Tuition/Registration Non-Local, Tuition/Registration Anchorage Area, and Miscellaneous Expenditures for the period between June 1, 2025, through August 31, 2025, were coded appropriately and the receipts/invoices matched the accounts used to code the expenditures. Specifically, we selected a sample of expenditures coded to the four GL accounts in SAP and reviewed the descriptions and attached documentation to determine if they were coded correctly.

We conducted this performance audit in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review due to budget constraints. We also developed and implemented a required quality management system. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Overall Evaluation. Our audit found that controls over coding of certain expenditures to the GL accounts needs to be improved. Specifically, we found the Controller does not have specific account definitions for the GL chart of accounts to guide departments in determining which account to use when coding expenditures to them, and Municipal departments did not appear to code certain expenditures to the correct GL accounts in SAP.

FINDINGS AND RECOMMENDATIONS

1. Lack of Specific Account Definitions for the General Ledger Chart of Accounts.

a. Finding. We found the Controller does not have specific account definitions for the GL chart of accounts to guide departments in determining which account to use when coding expenditures to them. Although a master list of GL accounts exists, there are no specific definitions to help department staff determine which account is appropriate for a given expenditure. The Governmental Accounting Standards Board (GASB) establishes the accounting and financial reporting standards state and local governments must follow under generally accepted accounting principles (GAAP). While GASB does not mandate a single, universal chart of accounts for all state and local governments, it instead establishes broad accounting and financial reporting principles, while individual states or sectors, like the Municipality, create standardized, uniform charts of accounts to ensure compliance with GAAP.

For example, federal guidance such as the U.S. Standard General Ledger (USSGL) shows the level of structure, detailed definitions, and account clarity expected in a government chart of accounts. While the USSGL applies only to federal entities, it clearly defines GL accounts and classification criteria to support consistent and accurate coding. In contrast, the Municipality does not have clear definitions in its chart of accounts, leaving departments without any guidance for determining the appropriate GL account to use for their expenditures. Furthermore, Municipal Policy/Procedure (P&P) 24-7, *Authorization of Accounting Transactions*, requires the Controller to implement procedures to "provide reasonable assurance that only valid and proper transactions are processed into the Municipal financial information system and reflected in the official records of each Department's accounts". However, according to the Controller, departments currently determine which GL accounts to use based on their own judgment.

Finally, because there are no GL account definitions, there is no training program identifying training needs related to GL expenditure coding, determining who should receive training, or defining training content. Other Municipal Finance P&Ps require the Controller to coordinate training in similar functional areas. However, the Controller and OMB staff stated they do not conduct training for Municipal staff on GL account coding. Without written definitions for GL accounts or a training program, the Municipality is at increased risk of losing institutional knowledge, applying inconsistent coding practices, making errors in financial reporting, and being unable to effectively train new staff.

b. **Recommendation.** The Controller should develop and implement specific chart of accounts definitions to assist departments in coding expenditures to the appropriate GL accounts. In addition, the Controller should establish a formal training program to ensure staff understand and consistently apply these definitions.

c. **Management Comments.** Management stated, "Management agrees that additional written guidance for expenditure-related general ledger accounts would improve consistency across Municipal departments and strengthen institutional knowledge.

The Controller Division is responsible for maintaining the Municipality's general ledger chart of accounts and providing accounting guidance regarding the appropriate use of

GL accounts. While departments are responsible for recording their financial activity in SAP, the Controller Division recognizes its responsibility to provide sufficiently clear definitions and guidance to support consistent account usage throughout the Municipality.

The Controller Division will review expenditure-related GL accounts and develop practical definitions, usage guidance, and examples to assist departments in determining the appropriate account for their transactions. As part of this effort, the Division will also identify accounts that may require clarification, refinement, or consolidation.

Following development of this guidance, the Controller Division will establish appropriate training and reference materials for Municipal employees responsible for expenditure coding. Training will focus on GL account distinctions, appropriate coding practices, supporting documentation expectations, and areas where inconsistent usage has historically occurred.

Where appropriate, the Controller Division will collaborate with other Finance functions and Municipal departments to ensure guidance is practical, clearly communicated, and effectively implemented."

d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. Expenditures Do Not Appear to Be Coded to Correct General Ledger Accounts.

a. **Finding.** Our review found Municipal departments did not appear to code certain expenditures to the correct GL accounts in SAP. Specifically, we selected a sample of 139 expenditures posted to the four GL accounts (Other Professional Services, Miscellaneous Expenditures, Registration/Tuition Non-Local, and Registration/Tuition Anchorage Area) between June 1, 2025, and August 31, 2025, and reviewed the expenditures to determine if they were coded to the appropriate GL account. However, because of the condition in Finding 1 of this audit, it was necessary for Internal Audit to consult with the Controller to validate the accuracy of the coding of the expenditures in the absence of GL account definitions. After review, the Controller determined 100 of 139 (72%) expenditures appeared to be coded to an incorrect GL account. For example, multiple Office of Information Technology (OIT) service expenditures were coded to the Other Professional Services GL account even though the Information Technology Services GL account appeared more appropriate. As another example, an Anchorage Fire Department expenditure for a course at University of Alaska, Fairbanks was coded to the Tuition/Registration Non-Local GL account; however, this course was taken remotely on-site in Anchorage and should be coded to the Tuition/Registration Anchorage Area GL account. In addition, 25 of 139 (18%) expenditures lacked accurate descriptions or adequate supporting documentation for the GL account coding decisions by departments, although later review through staff discussions and other SAP documentation confirmed the coding was correct.

In the absence of comprehensive guidance provided by the Controller, departments relied on informal knowledge and their own judgment when deciding where to code their expenditures. For example, department management in Anchorage Health Department and OIT stated they code all their contract service expenditures to the Other Professional Services GL account because “this is how it has always been done,” and reported receiving no guidance advising when different GL accounts should be used. The Office of Management and Budget currently allows the Other Professional Services GL account to be budgeted by departments as the largest category in non-labor. Anchorage Health Department staff stated they code most of their homelessness-related expenditures in the Other Professional Services GL account because that is where their budget is approved, allocated, and loaded in SAP. As a result, inaccurate and inconsistent GL coding increases the risk of misstated financial activity in the Municipality’s accounting records, which may lead to unreliable departmental reporting, reduced accuracy of financial information used for management decisions, and potential delays during reconciliations and external audits.

b. **Recommendation.** The Controller should develop controls to ensure departments consistently code expenditures to the correct GL accounts and include accurate descriptions and adequate supporting documentation.

c. **Management Comments.** Management stated, "Management agrees that greater consistency in GL account usage, transaction descriptions, and supporting documentation would improve the quality, consistency, and usability of the Municipality's financial information.

Management believes, however, that an important distinction should be made between an expenditure being recorded in a more appropriate detailed GL account and an expenditure being inaccurately recorded for financial reporting purposes.

During the audit, the Controller was asked to review transactions in the absence of formal written account definitions and identify the GL account that appeared to be the most appropriate based upon the nature of the expenditure and information available. In many instances, the determination represented a difference in the level or nature of expenditure classification rather than an indication that the underlying expenditure was invalid, improperly authorized, inaccurately recorded in amount, or resulted in a misstatement of the Municipality's financial statements.

The Controller Division accepts responsibility for strengthening the guidance and controls surrounding expenditure coding. The Division will:

- develop clearer definitions and practical examples for expenditure GL accounts;
- establish expectations for transaction descriptions and supporting documentation;
- identify GL accounts requiring clarification, consolidation, or refinement;
- develop and provide appropriate training and reference materials to Municipal staff; and
- establish reasonable review and monitoring procedures to promote consistent application of GL coding guidance.

These efforts will be incorporated into the Controller Division's broader commitment to continuous improvement, departmental support, and strengthening the consistency and reliability of the Municipality's accounting records. The Controller Division will collaborate with other Finance functions and departments as necessary during implementation while retaining responsibility for the accounting guidance and controls addressed by these recommendations."

d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on August 13, 2026.

Audit Staff:
Dalton Benson